



County of Los Angeles CHIEF EXECUTIVE OFFICE

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January 14, 2015

To: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

From: Sachi A. Hamai
Interim Chief Executive Officer

STATE BUDGET - PRELIMINARY ANALYSIS OF THE GOVERNOR'S FY 2015-16 PROPOSED BUDGET

OVERVIEW

On January 9, 2015, Governor Jerry Brown released his \$164.7 billion FY 2015-16 Proposed Budget, which provides \$113.3 billion in State General Fund expenditures, includes \$1.5 billion in total reserves, and projects a \$2.8 billion Rainy Day Fund balance. The Administration reports that State revenues are expected to increase by \$2.5 billion in FY 2014-15 and \$1.0 billion in FY 2015-16 above the amounts projected in the FY 2014-15 State Budget Act.

STATE GENERAL FUND EXPENDITURES				
	FY 2014-15	FY 2015-16	Dollar Variance	Percentage Variance
Total Resources Available	\$113.1 billion	\$114.8 billion	\$1.7 billion	1.5%
Total Expenditures	\$111.7 billion	\$113.3 billion	\$1.6 billion	1.4%
Fund Balance	\$1.4 billion	\$1.5 billion	\$.1 billion	7.1%
Budget Stabilization/ Rainy Day Fund	\$1.6 billion	\$2.8 billion	\$1.2 billion	75.0%

"To Enrich Lives Through Effective And Caring Service"

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At his press conference, Governor Brown indicated that while the economy continues to improve, maintaining a balanced State Budget for the long-term will be an ongoing challenge, and it will require fiscal restraint. According to the Governor, the State Budget is precariously balanced and the State faces rising costs for health care reform, wildfires, and costs of the State prison receivership. The Governor also reported that the State has billions of dollars in existing liabilities for deferred maintenance projects and infrastructure and for State retiree health benefits, which must be addressed. **It is important to note that the Governor's FY 2015-16 Proposed Budget contains no reductions to County-administered programs.**

The Governor's Budget contains major proposals in the following areas:

- **Education** - provides \$8.0 billion in additional funding for K-12 Education. Most of the funding will be directed to school districts serving low-income students, English language learners, and youth in foster care;
- **State Debt Reduction** - directs \$16.0 billion to pay down State debt including the final payment in Economic Recovery Bonds borrowed to cover prior year State Budget deficits, and \$533.0 million to pay local governments for pre-2004 mandate reimbursements;
- **Rainy Day Fund** - directs \$1.2 billion in Proposition 2 of 2014 funds to repay loans from special funds and past liabilities relating to Proposition 98/K-12 Education, and assumes a Rainy Day Fund balance of \$2.8 billion by June 2016;
- **Infrastructure** - proposes \$478.0 million for deferred maintenance projects at universities, colleges, State parks, prisons, hospitals and other State facilities; and
- **Climate Change** - proposes to invest \$1.0 billion in Cap and Trade expenditures for low-carbon transportation, affordable housing and sustainable communities, energy efficiencies, and high-speed rail.

Estimated County Impact

Based on a preliminary analysis of the information available at this time, it appears that the County will not experience any loss of funding or program reductions from any of the Governor's Budget proposals.

This office is currently working with affected departments and will keep the Board advised of any potential impact on the County once additional details of the Governor's Budget are released.

Attachment I provides a detail summary of the Governor's proposals of interest to the County.

Key Elements of the Governor's Budget of Interest to the County

State Mandates. The Governor's Budget proposes \$533.0 million in additional funding to repay a portion of the remaining \$800.0 million in mandate deferrals owed local governments for costs incurred prior to FY 2003-04. Of the \$533.0 million, \$390.0 million will be allocated to reimburse counties. Overall, the County is owed approximately \$163.5 million for mandate costs incurred prior to 2004. **It is estimated that the County will receive approximately \$88.0 million in FY 2015-16.**

Medi-Cal Expansion - County Indigent Savings. The Governor's Budget proposes to redirect \$698.2 million statewide in 1991 Health Realignment funding from counties to the State attributable to potential county indigent health care savings due to the implementation of the Medi-Cal expansion under the Federal Affordable Care Act. The Administration indicates that this amount is based on the methodologies contained in AB 85 (Chapter 24, Statutes of 2013), which modified the distribution of 1991 Health Realignment funding to capture and redirect county savings to the State. The Governor's Budget indicates that \$698.2 million is an initial estimate and will be updated in the May Budget Revision using updated data from the counties. As previously reported, the amount of funding to be redirected from the County to the State pursuant to the original AB 85 estimates was \$88.0 million in FY 2013-14 and \$238.0 million in FY 2014-15. A final reconciliation for FY 2013-14 will take place no later than January 2016, and by January 2017 for the FY 2014-15 redirection.

According to the Department of Health Services, the estimated amount of 1991 Health Realignment funding to be redirected from the County to the State in FY 2015-16 is estimated to be \$100.0 million. This amount is subject to a reconciliation and repayment process based on County actual savings and expenditures which will occur in 2018 as required by AB 85.

County Medi-Cal Administration. The Governor's Budget includes an additional \$150.0 million statewide in FY 2014-15 for counties to conduct Medi-Cal eligibility on behalf of the State. According to the Governor's Budget, the Medi-Cal caseload has

grown significantly due to the implementation of the Affordable Care Act, and the system built to automate eligibility work is still not fully functional. The Administration plans to continue to monitor county workload to determine if additional resources are warranted in FY 2015-16.

2011 Public Safety Realignment Funding. The Governor's Budget includes an increase in funding for the AB 109 Program from the estimated statewide base allocation of \$934.1 million in FY 2014-15 to \$1.1 billion in FY 2015-16. The proposed budget estimates \$113.7 million in growth for FY 2015-16.

Attachment II contains a chart of the Administration's estimates of 2011 Realignment allocations for FY 2015-16.

Jail Construction Funding. The Governor's Budget does not reference the availability of additional funds for jail construction funding; however, as approved by the FY 2014-15 State Budget Act, the Department of Finance has been working with the County to identify potential State funding options to address mental health and infrastructure needs of the County's jail system. The proposed funding options are due to the Joint Legislative Budget Committee by January 15, 2015. **This office, in collaboration with the Sheriff and other affected departments, will continue to work closely with the Administration to seek additional funding to address capacity issues, treatment programs for inmates, and infrastructure improvements.**

Redevelopment Dissolution Process. The Governor's Budget indicates that the Administration will propose legislation through the budget process to expedite and gradually transition the State away from its current detailed role in the dissolution of redevelopment agencies. Specifically, the Administration's proposed legislation would:

- Transition all successor agencies from a biannual Recognized Obligation Payment Schedules (ROPS) process to an annual ROPS process beginning July 1, 2016, when the successor agencies transition to a countywide oversight board;
- Establish a "Last and Final" ROPS process beginning September 2015, available only to successor agencies that have a Finding of Completion, are in agreement with the Department of Finance on what items qualify for payment, and meet other specified conditions. County auditor-controllers will remit the authorized funds to the successor agency in accordance with the approved Last and Final ROPS until each remaining enforceable obligation has been fully paid; and

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- Designate county auditor-controllers as staff for countywide oversight boards beginning in July 2016.

This office will work with the Auditor-Controller and County Counsel to analyze these proposals once the proposed statutory language is released and will report back to the Board with analysis and recommendations.

We will continue to keep you apprised.

SAH:RA
MR:VE:IGEA:ma

Attachments

c: All Department Heads
Legislative Strategist

Governor's FY 2015-16 Proposed Budget

General Government

State Mandates.

- **Repayment of Pre-2004 Mandate Debt to Local Governments.** The Governor's Budget proposes \$533.0 million in additional funding to repay a portion of the remaining \$800.0 million in mandate deferrals owed to local governments prior to FY 2003-04. Of the \$533.0 million, \$390.0 million will be allocated to reimburse counties. Overall, the County is owed approximately \$163.5 million for mandate costs incurred prior to 2004. **It is estimated that the County will receive approximately \$88.0 million in FY 2015-16.**
- **Public Records Act Mandate.** Proposition 42 of 2014 removed the State's responsibility to fund the California Public Records Act (CPRA) mandate. The Governor's Budget proposes a one-time payment of \$9.6 million statewide to fund the costs local agencies accrued from 2001 to 2013 for performing activities under this mandate. **This office is working with the Auditor-Controller to identify potential CPRA reimbursements to the County.**
- **Interagency Child Abuse and Neglect (ICAN) Investigation Reports Mandate.** The Governor's Budget proposes to suspend the ICAN mandate, which requires certain local agencies to conduct various activities related to child abuse investigations and to provide reported child abusers due process protections. The Administration indicates that these activities are long-established parts of the core mission of local agencies. As a substitute funding mechanism for these activities, the Governor's Budget proposes a new \$4.0 million statewide optional grant program administered by the California Department of Social Services. **This office is currently working with affected departments and will keep the Board advised of any potential impact on the County once additional details on the proposed grant program are released.**

Health Care

Medi-Cal Expansion - County Indigent Savings. The Governor's Budget proposes to redirect \$698.2 million statewide in 1991 Health Realignment funding from counties to the State attributable to potential county indigent health care savings due to the implementation of the Medi-Cal expansion under the Federal Affordable Care Act. The Administration indicates that this amount is based on the methodologies contained in AB 85 (Chapter 24, Statutes of 2013), which modified the distribution of

1991 Health Realignment funding to capture and redirect county savings to the State. The Governor's Budget indicates that \$698.2 million is an initial estimate and will be updated in the May Budget Revision using updated data from the counties. As previously reported, the amount of funding to be redirected from the County to the State pursuant to the original AB 85 estimates was \$88.0 million in FY 2013-14 and \$238.0 million in FY 2014-15. A final reconciliation for FY 2013-14 will take place no later than January 2016, and by January 2017 for the FY 2014-15 redirection.

According to the Department of Health Services, the estimated amount of 1991 Health Realignment funding to be redirected from the County to the State in FY 2015-16 is estimated to be \$100.0 million. This amount is subject to a reconciliation and repayment process based on County actual savings and expenditures which will occur in 2018 as required by AB 85.

Coordinated Care Initiative (CCI). The Governor's Budget continues to implement the Coordinated Care Initiative (CCI) which was established in the FY 2012-13 State Budget Act to coordinate care for persons dually eligible for Medi-Cal and Medicare. The CCI was intended to operate in eight counties: Los Angeles, Alameda, Orange, Riverside, San Bernardino, San Diego, San Mateo, and Santa Clara. However, the Governor's Budget warns that there have been a number of unexpected changes since the enactment of the CCI which threaten the program's continued viability. Currently, six counties have begun passive enrollment in the CCI, including Los Angeles County. In 2015, Orange County will begin enrollment and Alameda County will no longer participate in the CCI. Additionally, the Federal government reduced the amount of savings California is allowed to retain under the CCI from 50 percent to a projected 25 to 30 percent.

Furthermore, the Administration indicates that recent changes have significantly increased State costs relating to revised Federal regulations that In-Home Supportive Services (IHSS) providers are entitled to overtime compensation, and the Maintenance of Effort (MOE) funding formula for the In-Home Supportive Services (IHSS) program established as part of the CCI. Under the current IHSS MOE, program costs are capped for counties based on FY 2011-12 expenditure levels with an annual growth of 3.5 percent. The cost cap applies to all 58 counties, and not only the counties implementing the CCI.

The Governor's Budget further notes that State General Fund savings are projected for the CCI of \$176.1 million in FY 2015-16, but it is primarily from the tax on managed care organizations which is also at risk. According to the Administration, if program factors are not improved by January 2016, the CCI would cease operating effective January 2017. The Administration indicates that it remains committed to implementing the CCI to the extent it can continue to generate program savings and will seek ways to improve program participation, extend an allowable managed care tax, and lower State costs.

It is important to note that the success of the CCI is directly tied to the continuation of the County's IHSS MOE which was negotiated between the Administration and the California State Association of Counties including the County. This office will continue to work with the Department of Public Social Services to closely monitor this issue and keep the Board advised of the progress of the CCI as more information becomes available.

Public Health

Community Care Licensing. The Governor's Budget proposes \$21.8 million and 237 positions for the State's Licensing and Certification Program. **In addition, the budget proposes \$9.5 million to augment the County's existing contract with the State to conduct inspections of long-term care facilities.** The budget also includes three State positions to provide the County with on-site oversight, training, and quality improvement activities. **This office is working with the Department of Public Health to determine how the Governor's proposal would affect the County.**

Social Services

County Medi-Cal Administration. The Governor's Budget includes an additional \$150.0 million in FY 2014-15 for counties to conduct Medi-Cal eligibility on behalf of the State. According to the Governor's Budget, Medi-Cal caseload has grown significantly due to the implementation of the Affordable Care Act, and the system built to automate eligibility work is still not completely functional. The Administration will continue to monitor county workload to determine if additional resources are also warranted in FY 2015-16. In the interim, the Governor's Budget continues to fund the increase of \$240.0 million in FY 2015-16 that counties received the last two years. **DPSS indicates that there could be a different distribution methodology for this proposed increased funding, and the amount that the County would receive cannot be determined at this time. This office will continue working with DPSS to determine the potential County impact of this proposal.**

In-Home Supportive Services (IHSS). The Governor's Budget proposes to restore the current 7-percent across-the-board reduction in IHSS service hours with proceeds from the new tax on managed care organizations, effective July 1, 2015. The cost to restore the 7-percent reduction is estimated to be \$483.1 million in FY 2015-16. The restoration of the 7-percent reduction is contingent on Federal approval of the new tax on managed care organizations that the Administration is proposing. **DPSS indicates that as long as the current IHSS Maintenance of Effort (MOE) remains in place, there would be no direct fiscal impact to the County as a result of the proposed restoration of the previous 7-percent reduction in IHSS service hours. In addition, DPSS indicates the workload impact to the County is minimal to none as the restoration of hours would be done centrally through the State Case Management, Information and Payrolling System.**

According to DPSS, the overall impact of this proposal to consumers of the IHSS program would be positive, allowing consumers to receive the hours previously lost with the budget reduction in 2014. DPSS reports that IHSS consumers will see an increase of an average of 6.6 hours per month if the restoration is enacted. As of November 2014, there was a total of 199,410 IHSS consumers in Los Angeles County.

CalWORKs. The FY 2014-15 State Budget Act increased CalWORKs Maximum Aid Payment levels by 5 percent, effective April 1, 2015. This increase, combined with the prior 5 percent increase in 2014 is estimated to cost approximately \$340.5 million in FY 2015-16. **DPSS indicates that there is no Net County Cost impact from this proposal.** As of November 2014, there were 169,910 CalWORKs cases in Los Angeles County.

CalFresh Administration Match Waiver. The Governor's Budget assumes the first 25 percent reduction to the CalFresh Program Administration Match Waiver in FY 2015-16 pursuant to the phase-out agreement adopted in the FY 2014-15 State Budget Act. The CalFresh Program Administration Match Waiver provides counties with relief from their share of the cost for program administration once the Maintenance of Effort requirement has been met. As previously reported, the FY 2014-15 State Budget Act contained a County-supported proposal by the County Welfare Directors Association, the California State Association of Counties, and the Urban Counties Caucus to gradually phase out the CalFresh Program Administration Match Waiver to provide flexibility and fiscal relief to counties. Specifically, counties would be eligible to receive the full allocation for CalFresh administration in FY 2014-15, and the waiver amount would be reduced as specified through subsequent fiscal years, with the elimination of the waiver by FY 2018-19.

Commercially Sexually Exploited Children (CSEC). The Governor's Budget provides \$6.5 million in FY 2014-15 and \$17.0 million in FY 2015-16 to continue funding to support county efforts in developing local protocols, and providing youth training and services for child sex trafficking victims.

Approved Relative Caregivers Funding Option Program. The Governor's Budget includes \$15.0 million for FY 2014-15 and \$30.0 million for FY 2015-16 for the Approved Relative Caregivers Funding Option Program. This optional program, which was established under the FY 2014-15 State Budget Act, allows counties to pay related caregivers of non-federally eligible children in foster care at a rate equal to the basic family foster care rate, beginning January 1, 2015. The State is required to establish a final baseline caseload and cost for the program by October 1, 2015.

Continuum of Care Reform. The Governor's Budget includes \$9.6 million to begin implementing the Continuum of Care Reform which builds upon past collaborative system improvements, including the development of preventive services to help keep

children safely in their homes, kinship guardian programs to help increase long-term family care for children, extended foster care support through age 20, and wraparound and increased mental health services to help support successful reunifications.

Additionally, the California Department of Social Services (CDSS) released a report, *California's Child Welfare Continuum of Care Reform*, concurrently with the Governor's Budget. This report, which was directed by the Legislature under SB 1013 (Chapter 35, Statutes of 2012), contains 19 interdependent recommendations to reduce the use of out-of-home care for foster children and youth. The Governor's Budget indicates that the following two recommendations of the total 19 require action in the budget year: 1) increasing the availability of home-based family care through recruitment and retention efforts; and 2) increasing the social worker capacity of foster family agencies to provide services in home-based family care placements. The following is the link to the full report: http://www.cdss.ca.gov/cdssweb/entres/pdf/CCR_LegislativeReport.pdf.

This office is working with the Department of Children and Family Services to determine any potential impact to the County from the above recommendations.

Community Care Licensing. The Governor's Budget includes \$3.0 million and 28.5 positions to address a backlog of complaint cases and expand training and technical assistance under the Community Care Licensing Program. Beginning in January 2017, CDSS would begin increasing inspection frequency to every three years for all facilities, every two years by 2018 for all facility types except child care, and annually by 2019 for adult day care and residential care facilities for the elderly. The Governor's Budget indicates that ongoing staffing costs would be approximately \$14.0 million.

Child Care and Development Programs. The Governor's Budget includes the following adjustments to Child Care and Development Programs. Stage 1 is administered by CDSS for families on CalWORKs Program cash assistance whose work activities have not stabilized; Stage 2 is administered by the California Department of Education (CDE) for CalWORKs families with stable work activities and for families who are transitioning off aid, for up to two years; and Stage 3, is also administered by CDE for families who have successfully transitioned off aid for more than two years and still have a child care need.

- Stage 1 - provides \$357.1 million in FY 2015-16, a decrease of nearly \$9.0 million from FY 2014-15 to reflect a lower projected caseload and cost per case.
- Stage 2 - proposes a decrease of \$11.6 million in non-Proposition 98 State General Fund in FY 2015-16 to reflect a decrease in the number of CalWORKs Stage 2 cases.

- Stage 3 - proposes an increase of \$38.6 million in non-Proposition 98 State General Fund in FY 2015-16 to reflect an increase in the number of CalWORKs Stage 3 cases.

This office is working with DPSS and the Chief Executive Office - Office of Child Care to determine any impact to the County from the above proposals.

Workforce Training. The Governor's Budget provides over \$1.2 billion in funding to support a coordinated framework for adult education, career technical education, workforce investment and apprenticeships. This amount includes \$250.0 million in Proposition 98 State General Funds for Career Technical Education for incentive grants for county offices of education, school districts and charter schools. Additionally, the Governor's Budget indicates that discretionary funding in FY 2015-16 under the Workforce Investment Act is expected to increase and will be detailed in the Governor's May Revision after Federal guidelines for the reauthorized Federal Workforce Innovation and Opportunity Act are released in early 2015. **This office is working with impacted departments to determine any potential impact to the County from this proposal.**

Public Safety

2011 Public Safety Realignment Funding. The Governor's Budget includes an increase in funding for the AB 109 Program from the estimated statewide base allocation of \$934.1 million in FY 2014-15 to \$1.1 billion in FY 2015-16. The proposed budget estimates \$113.7 million in growth for FY 2015-16.

Attachment II includes a summary of the 2011 Public Safety Realignment estimates across all accounts.

Jail Construction Funding. As a result of realignment, the County is now responsible for housing more serious inmates, including many who suffer from chronic mental health and medical illnesses, for longer periods of time. The County currently lacks the space for advanced re-entry programs and in-custody medical services to adequately treat and rehabilitate this large population. While the County has received approximately 30 percent of the AB 109 inmate population, it has only been awarded about 5 percent of available jail construction funding to date.

The Governor's Budget does not reference the availability of additional funds for jail construction funding; however, as approved by the FY 2014-15 State Budget Act, the Department of Finance has been working with the County to identify potential State funding options to address mental health and infrastructure needs of the County's jail system. **The proposed funding options are due to the Joint Legislative Budget Committee by January 15, 2015.** This office, in collaboration with the Sheriff and impacted departments, will continue to work closely with the Administration to seek additional funding to address capacity issues, treatment programs for inmates, and infrastructure improvements.

Three-Judge Panel and Prison Population Reduction. The Governor's Budget outlines ongoing State efforts to meet the Federal three-judge panel population reduction order by February 28, 2016, including two new population reduction measures and the expansion of Pilot Reentry Programs:

- **New Parole Determination Process.** On January 1, 2015, the State began implementing the new court-ordered parole determination process for non-violent, non-sex registrant second-strike offenders who have completed 50 percent of their sentence.
- **Increased Credit Earnings for Certain Minimum Custody Inmates.** Effective January 1, 2015, minimum custody inmates who are eligible to receive day-for-day credits began earning two-for-one credits.
- **Expansion of Pilot Reentry Programs.** In August 2014, the Administration solicited proposals to create community-based reentry centers to provide supervision and program services for offenders released to parole or Post Release Community Supervision and who have participated in the State's Mental Health Services Delivery System. The State is currently negotiating contracts with four potential contracting entities in Kern, Los Angeles, and San Joaquin counties, and anticipates entering into contracts in the spring of 2015.

A court-appointed Compliance Officer has the authority to order the release of inmates should the State fail to meet the interim benchmark of 143 percent of design capacity by February 28, 2015, and the final benchmark of 137.5 percent by February 28, 2016. Given that the State's prison system's current population is at 140 percent capacity, below the 2015 cap, the Governor's Budget projects that the State will meet the final 2016 benchmark.

Probation.

- **Post Release Community Supervision Funding.** The Governor's Budget includes an additional \$16.0 million statewide for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision as a result of the two new prison population reduction measures implemented on January 1, 2015.
- **Community Corrections Performance Incentive Grant.** The Governor's Budget includes \$125.0 million statewide for FY 2015-16 to fund SB 678 payments to county probation departments. SB 678 of 2009, the Community Corrections Performance Incentive Act, provides funding to counties that successfully reduce the number of felony probationers that are sent to State prison on new charges. The FY 2015-16 allocation is based on the FY 2014-15 formula comparing each county's estimated 2014 felony probation returns to prison and jail to their 2006 to 2008 baseline returns to prison. The Governor's

Budget notes that the Department of Finance will continue to work with the Judicial Council, the Chief Probation Officers of California, and the Department of Corrections and Rehabilitation on a revised formula.

This office is working with the Probation Department to determine the County impact from the above proposals.

Proposition 47 of 2014. The Governor's Budget reports that as a result of Proposition 47, which reduced certain property and drug crimes from felonies to misdemeanors and allows resentencing for those previously convicted of these crimes, it is estimated that 1,900 inmates will be resentenced in FY 2015-16, further reducing the average daily State prison population. Proposition 47 requires anticipated State criminal justice savings resulting from the measure to be directed into a new State fund to be allocated for grant programs, including local recidivism and truancy prevention programs beginning in FY 2016-17.

Recidivism Reduction Fund. The Governor's Budget includes \$28.2 million statewide for the Recidivism Reduction Fund, established by SB 105 of 2013, to fund new programs and services aimed at reducing recidivism rates for State and local offenders. This allocation includes savings from implementation delays projected in FY 2014-15. The budget proposes to reappropriate \$12.6 million in savings to allow the Administration to enter into contracts with community reentry facilities in FY 2015-16, and to use the remaining \$15.6 million for the expansion of substance abuse disorder treatment at non-reentry hub institutions.

Trial Court Funding. The Governor's Budget includes an increase of \$90.1 million in State General Fund to support trial court operations and \$26.9 million in State General Fund to reflect the projected increase in trial court workload as a result of Proposition 47 of 2014 resentencing provisions.

Dependency Counsel Funding. The Governor's Budget indicates that the Judicial Council's current annual budget allocation for court-appointed dependency counsel is \$103.7 million. The budget further recognizes that the current statewide average caseload of 248 cases per attorney needs to be lowered in order to reduce hearing delays and potentially shorten time to permanency for families. The Judicial Council recommends a basic caseload standard of 188 cases per attorney. The Administration plans to work with the Council to develop a caseload-based allocation methodology and explore ways to reduce the number of cases per attorney.

Environment and Natural Resources

Climate Change. The Governor's Budget proposes an additional \$1.0 billion in cap-and-trade expenditures for the State's continuing investments in these programs, with 25 percent of the investments targeted to benefit disadvantaged communities. Specifically, the budget proposes the following allocations:

- \$800.0 million for sustainable communities and clean transportation:
 - \$250.0 million for high-speed rail
 - \$200.0 million for affordable housing and sustainable communities program
 - \$200.0 million for low carbon transportation
 - \$100.0 million for transit and intercity rail capital program
 - \$ 50.0 million for low carbon transit operations program
- \$110.0 million for energy efficiency and clean energy:
 - \$75.0 million for energy efficiency upgrades/weatherization
 - \$20.0 million for energy efficiency for public buildings
 - \$15.0 million for agricultural energy and operational efficiency
- \$92.0 million for natural resources and waste diversion programs:
 - \$42.0 million for fire prevention and urban forestry projects
 - \$25.0 million for wetlands and watershed restoration
 - \$25.0 million for waste diversion

These allocations are consistent with the long-term cap-and-trade investment plan that was approved as part of the FY 2014-15 State Budget Act, which provides an ongoing share of annual cap-and-trade revenues (through 2020) to the following categories of projects:

- 25 percent to high-speed rail;
- 5 percent to local transit agencies for operational improvements;
- 10 percent in competitive grants for state or local transit improvement projects; and
- 20 percent for affordable housing and other development that supports transit ridership.

California has held nine cap-and-trade auctions to date, and is investing over \$870.0 million (\$180.0 million in FY 2014-15) from auction proceeds in low carbon transportation, affordable housing and sustainable communities, energy efficiency, urban forests, and high-speed rail.

The Governor's Budget also notes that Administration will work with the Legislature and stakeholders to develop greenhouse gas reduction targets for 2030 that would facilitate a total reduction of 80 percent below 1990 levels by 2050.

The Internal Services Department reports that while there are no direct impacts to the County's programs or operations from these proposals, there are likely a number of funding opportunities in these areas.

Water Action Plan. The Governor's Budget proposes implementation of the Proposition 1 Water Bond, approved by voters in November 2014, with funding for safe drinking water, water reliability, and groundwater sustainability. The Water Bond provides \$7.5 billion in General Obligation bonds for water storage, water quality, flood protection, and watershed protection and restoration projects. Specifically, the Governor's Budget proposes:

- \$532.5 million in first-year implementation funding including:
 - \$178.0 million for watershed protection and restoration
 - \$137.2 million for water recycling
 - \$135.5 million for safe drinking water
 - \$ 56.6 million for regional water reliability
 - \$ 21.9 million for groundwater sustainability
 - \$ 3.3 million for water storage

The Governor's Budget also indicates that the \$1.1 billion remaining in Proposition 1E (2006) funds will be allocated to flood management projects associated with the Central Valley Flood Protection Plan. These proposals are consistent with the Water Action Plan released by the Governor in January 2014, as well as with the priorities in the voter-approved Proposition 1 Water Bond.

The Department of Public Works (DPW) reports that many of its Water Resources Branch activities will likely be eligible for Water Bond funding, and that the Flood Control District can partner on projects with the State Conservancies. DPW also notes that under the proposed funding levels, stormwater and ground remediation programs appear to be receiving only enough funding for planning efforts and not for grant awards in the coming fiscal year.

The Department of Beaches and Harbors indicates that it may be eligible for funding from the Water Bond allocations, dependent on funding guidelines and priorities.

Groundwater Management. The Governor's Budget proposes \$6.0 million State General Fund for the California Department of Water Resources to provide additional technical assistance to local agencies on the development of their groundwater sustainability plans, as well as to implement specific requirements of the groundwater legislation. The Sustainable Groundwater Management Act, signed into law in September 2014, establishes a new structure for improved local management of groundwater basins. The State's primary role is to provide guidance and technical support to local groundwater agencies.

Emergency Drought Response. The Governor's Budget proposes \$115.0 million on a one-time basis to: 1) continue drought-related fire protection services; 2) assess of surface and groundwater conditions; 3) expedite water transfers; 4) provide technical guidance to local water agencies; 5) enforce drought-related water rights and water curtailment actions; and 6) provide grants for emergency drinking water projects.

Transportation

Highway User Tax Account (HUTA) Revenues. The Governor's Budget forecasts a drop of over 15 percent in Highway User Tax Account revenues (gas tax) revenues compared to gas tax revenues in FY 2014-15. The reduction of gas tax revenues is due to the downward adjustment of the gasoline excise tax rate due to the lower consumption of gasoline statewide. The Governor's Budget forecasts that the excise tax on gasoline will be 30.5 cents per gallon in 2015-16.

The Department of Public Works projects \$163.0 million in gas tax revenues for the County in FY 2015-16 (an approximate decrease of \$21.0 million compared to FY 2014-15 and an overall decrease of \$46.0 million from FY 2013-14). This projection may even lower depending upon the State's payment for transportation related bond debt service in FY 2015-16. The trend of lower Highway User Tax Account revenues is expected to continue for the next two to three years.

The County received approximately \$209.0 million for FY 2013-14 and \$184.0 million for FY 2014-15 in gas tax revenues. The Department of Public Works reports that the gap in FY 2014-15 HUTA funding is being partially offset by the State's early repayment of previous State General Fund borrowing from transportation funding. The County's share of that repayment is approximately \$24.7 million. The Department of Public Works reports that the State is not expected to make similar repayments in FY 2015-16.

The Department of Public Works further notes that gas tax revenues are a prime source of revenue for the construction, maintenance, and operation of streets and roadways throughout the unincorporated areas of the County. **This office will work with the Department of Public Works to further analyze the gas tax revenues estimates and report back with any potential impact on County operations or programs.**

Transportation Infrastructure. The Governor's Budget notes that the State has begun to explore new and expanded financing strategies for the State's ongoing maintenance and repair needs, including: 1) a Road Usage Charge Pilot Program to explore a potential mileage-based revenue collection system to support maintenance and operations of California's roads and highways as a possible replacement to the current gasoline tax system; and 2) proposed legislation to restore authority for new high-occupancy toll lane projects, including conversion of existing high-occupancy lanes to toll roads.

The Governor's Budget estimates that the deferred maintenance on existing State infrastructure - including roads, highways, bridges and facilities - totals \$66.0 billion. Annual maintenance and repairs to these facilities are billions more than can be funded annually within existing resources, as the majority of existing transportation revenues are devoted to local streets and roads, transit, and debt service. The Budget notes that the State must consider other funding options to provide for the long-term sustainability

of the State's core highway system, including an ongoing pay-as-you-go funding structure that aligns funding with use of the system, as well as new local option revenues to address local road and transit preservation shortfalls.

Redevelopment Dissolution

The Governor's Budget indicates that the Administration will propose legislation through the budget process to gradually transition the State away from the current detailed role in the redevelopment agency (RDA) dissolution process by:

- Minimizing the potential erosion of property tax residuals being returned to local affected taxing entities while transitioning the State from detailed review of enforceable obligations to a streamlined process;
- Clarifying and refining various provisions in statute to eliminate ambiguity, where appropriate, and make the statutes operate more successfully for all parties without rewarding previous questionable behavior; and
- Maintaining the expeditious wind-down of former RDA activities while adding new incentives for substantial compliance with the law.

Specifically, the Administration's proposed legislation will include the following changes to the dissolution process:

- Transition all successor agencies from a biannual Recognized Obligation Payment Schedules (ROPS) process to an annual ROPS process beginning July 1, 2016, when the successor agencies transition to a countywide oversight board. This restructured process will be more efficient and will reduce the workload on all parties;
- Establish a "Last and Final" ROPS process beginning in September 2015, available only to successor agencies that have a Finding of Completion, are in agreement with the Department of Finance on what items qualify for payment, and meet other specified conditions. County auditor-controllers will remit the authorized funds to the successor agency in accordance with the approved Last and Final ROPS until each remaining enforceable obligation has been fully paid; and
- Designate county auditor-controllers' offices as staff for countywide oversight boards beginning in July 2016.

This office will work with the Auditor-Controller and County Counsel to analyze these proposals once the proposed statutory language is released and will report back to the Board with analysis and recommendations.

State Retiree Health Care

The Governor's Budget calls for State employees and agencies to equally share in the prefunding of the normal costs of retiree health care to address the \$72.0 billion unfunded liability that exists for State retiree health care benefits. The current system used by the State for funding retiree health care is pay-as-you-go, which the Governor's Budget indicates is not working. The Administration will seek to include this cost-sharing proposal in future collective bargaining agreements with State employees. **It is important to note that the Governor's proposal to prefund retiree health care only impacts State employees.**

The State's largest long-term liabilities are related to State employee retirement costs totaling hundreds of billions of dollars over the next 50 years. The Governor's proposal to prefund retiree health care seeks to preserve State retiree health benefits and make retiree health care more affordable by lowering the growth of premium costs. The Administration is modeling this proposal after the new pension-funding standard, whereby returns on State investments would be used to pay for future benefits, saving nearly \$200.0 billion and eliminating the unfunded liability by FY 2044-45.

**Governor's FY 2015-16 Proposed Budget
2011 Public Safety Realignment Estimate**

(Dollars in Millions)

	2013-14	2013-14 Growth	2014-15	2014-15 Growth	2015-16	2015-16 Growth
Law Enforcement Services	\$2,124.3		\$2,078.3		\$2,248.4	
Trial Court Security Subaccount	508.0	9.8	518.1	17.0	535.1	15.2
Enhancing Law Enforcement Activities Subaccount ²	489.9	24.6	489.9	36.2	489.9	56.2
Community Corrections Subaccount ³	998.9	73.1	934.1	127.7	1,061.7	113.7
District Attorney and Public Defender Subaccount ³	17.1	4.9	15.8	8.5	24.3	7.6
Juvenile Justice Subaccount	110.4	9.8	120.4	17.0	137.4	15.2
<i>Youthful Offender Block Grant Special Account</i>	<i>(104.3)</i>	<i>(9.3)</i>	<i>(113.8)</i>	<i>(16.1)</i>	<i>(129.9)</i>	<i>(14.4)</i>
<i>Juvenile Reentry Grant Special Account</i>	<i>(6.1)</i>	<i>(0.5)</i>	<i>(6.6)</i>	<i>(0.9)</i>	<i>(7.6)</i>	<i>(0.8)</i>
Growth, Law Enforcement Services	122.2	122.2	206.4	206.4	207.9	207.9
Mental Health⁴	1,120.6	9.1	1,120.6	15.8	1,120.6	14.1
Support Services	2,829.4		3,022.0		3,322.3	
Protective Services Subaccount	1,837.0	112.0	1,970.7	153.5	2,124.2	126.8
Behavioral Health Subaccount ⁵	992.4	60.0	1,051.3	146.7	1,198.1	140.9
<i>Women and Children's Residential Treatment Services</i>	<i>(5.1)</i>	<i>-</i>	<i>(5.1)</i>	<i>-</i>	<i>(5.1)</i>	<i>-</i>
Growth, Support Services	181.1	181.1	316.0	316.0	281.8	281.8
Account Total and Growth	\$6,377.6		\$6,743.3		\$7,181.0	
Revenue						
1.0625% Sales Tax	5,863.1		6,217.2		6,634.9	
Motor Vehicle License Fee	514.5		526.1		546.1	
Revenue Total	\$6,377.6		\$6,743.3		\$7,181.0	

This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

¹ Dollars in millions.

² Allocation is capped at \$489.9 million. Growth will not add to subsequent fiscal year's subaccount base allocations.

³ 2013-14 and 2014-15 growth is not added to subsequent fiscal year's subaccount base allocations.

⁴ Growth does not add to base.

⁵ The Early and Periodic Screening, Diagnosis, and Treatment and Drug Medi-Cal programs within the Behavioral Health Subaccount do not yet have a permanent base.